

# Housing Stock Options Appraisals – Financial Implications

Chartered Institute of Public  
Finance and Accountancy

Adrian Waite

5<sup>th</sup> November 2004





# Government Housing Priorities

- ◆ Sustainability
  - New homes in areas of high housing need
  - Affordable Housing in areas with high property values
  - Bringing existing homes up to the Decent Homes Standard
  - Tackling low demand in parts of the Midlands and the North
  - Housing together with wider regeneration
- ◆ Improving performance and quality
- ◆ Improving Tenant participation
- ◆ The Communities Plan/ PSA Plus review
  - Requirement to carry out “rigorous” option appraisals plus a need for government approval and ‘sign off’

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*



# The reasons for carrying out a stock options appraisal

- ◆ Comply with government requirements
- ◆ Establish what resources are needed to achieve the Decent Homes Standard and compare this with the resources that are available
- ◆ Consider what investment and service improvements are wanted by the tenants
- ◆ Identify the extent to which each of the options meet the requirements of the Council and the tenants
- ◆ Identify the potential effect of each option on the Council




# The Housing Investment Programme and the Decent Homes Standard

- ◆ Decent Homes Standard, to be achieved by 2010 will cost £19billion
- ◆ Capital resources to achieve this fall short nationally and in 97 local authorities
- ◆ Government is reluctant to make more public funding available because of the public sector borrowing requirement
  - Golden Rule
  - Sustainable Investment Rule
- ◆ Stock options reviews focus on identifying ways of achieving the decent homes standard – often using private funding – additional resources in local authority sector only provided where there is an ALMO

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*



# ODPM Requirements for Options Appraisals

- ◆ Early contact with Government Office
- ◆ Robust information on stock condition and supply & demand
- ◆ Tenants & Leaseholders involved from the outset with a central role in decision making
- ◆ Options Appraisal is part of a wider strategy for neighbourhood renewal
- ◆ Consideration given to mixed-model solutions
- ◆ Preliminary assessment of issues around choice of landlord under stock transfer
- ◆ Consideration of potential for improved service delivery as well as capital investment
- ◆ Councils cannot select an inappropriate option
- ◆ Deadline for completion is July 2005

**AWICS** 

Independence

.....

Integrity.....

Value

# Retention

- ◆ Homes within council ownership managed directly by Council employed staff
- ◆ Can the Council afford to meet the Decent Homes Standard and other aspirations?
- ◆ Rents are due to change which ever option is chosen. Very similar under all the options
- ◆ Government wants some other changes
  - Separate strategy and landlord roles
  - Tenant involvement in decision making
  - Audit commission Housing Inspections/ Comprehensive Performance Assessment (CPA)
- ◆ Some changes in the Housing Finance system
  - Local Government Act – “Prudential Borrowing”
  - Changes to Housing Subsidy



**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*

# Decent Homes Standard



A decent home:

- ◆ Is above the current statutory minimum standard for housing (fit for human habitation)
- ◆ Is in a reasonable state of repair
- ◆ Has reasonably modern facilities and services
  - Kitchens – less than 20 years old
  - Bathrooms – less than 30 years old
- ◆ Provides a reasonable degree of thermal comfort

Cost of implementing estimated at £19billion nationally

Does not include external works, environmental works, remodelling or security

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*

# Prudential Borrowing

- ◆ Councils are to be put in the same position as private organisations – able to borrow money if they are able to meet the interest and loan repayments
- ◆ From 2004/2005 – ‘Prudential Borrowing’
  - Supported Borrowing
  - Unsupported Borrowing
- ◆ Prudential Borrowing Regulations
  - Small core framework of capital legislation including the power to borrow, and to regulate borrowing and extended credit and a new power to set statutory prudential indicators
  - Continuing reliance on the statutory ‘balanced budget’ requirement and other prudential legislation
  - Accounting implications included in guidance issued by the Chartered Institute of Public Finance and Accountancy
- ◆ How can a local authority find ‘headroom’ in the Housing Revenue Account?

**AWICS** 

Independence

.....

Integrity.....

Value



# Retention : questions

- ◆ Why choose a retention strategy?
  - All major objectives can be achieved : local and government
  - Revenue prospects are manageable
  - Any shortfalls on capital expenditure can be met through management of savings and / or additional income
  - Support from tenants for continuing landlord direct management – fully informed and in “overwhelming” numbers
- ◆ The alternatives may be able to achieve more ... a central question for the process...

**AWICS** 

Independence

.....

Integrity.....

Value

# Arms Length Management

- Council sets up a management organisation
  - Runs the management, repairs and improvements service
  - Owned by the Council - but a separate organisation
- Has a board of management
  - Elected tenants, councillors and independents
- Can get more money from the government
- Stays public sector and council as landlord



**AWICS** 

Independence

.....

Integrity.....

Value



# Arms Length Management Companies: Conditions of Acceptance

- ◆ Clear separation of strategic and landlord roles with investment as a responsibility of the arms length management organisation
- ◆ Excellent Best value rating or a good rating with a likelihood of improvement to the excellent level
- ◆ High quality Housing Strategy and Business Plan
- ◆ Rent restructuring and lettings policies must be being implemented
- ◆ Tenants must support the option and there must be tenant participation in management

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*



# Arms Length Management Organisations – Recent Developments

- ◆ Amalgamation of Arms Length Management Organisation borrowing support within Supported Capital Expenditure
- ◆ 5% for environmental works
- ◆ Indicative limits on value and stock numbers removed
- ◆ The Building Costs Model
- ◆ Other solutions for expensive “pockets”
- ◆ Business expansion to combat Right to Buy losses

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*



# Arms Length Management Organisations – Future Developments

*“ALMOs and their parent authority remain subject to the housing finance system. As a further incentive to high performance, the government has now decided that it will develop further the proposal to allow the very best ALMOs to move outside that system and become self financing.”*

*“The government believes there may be circumstances where greater flexibility (in calculating management and maintenance allowances) is required, for example to better reflect differences in the condition of otherwise similar stock and to reward good performance... The new arrangements are likely to be used initially to direct additional subsidy to ALMOs more effectively.”*

**AWICS** 

Independence

.....

Integrity.....

Value



# ALMO : questions

- ◆ What are the reasons for doing an ALMO?
  - Separation of landlord / enabling role
  - Bridging an investment shortfall where the decent homes standard is threatened
  - Greater focus on housing service efficiency and improvement
  - Extend tenant participation
- ◆ What are the prospects of achieving the 2\* standard, and when?
- ◆ Is the financial position sustainable for day to day services?

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*



# Private Finance Initiative

- ◆ Ownership remains with the Council
- ◆ No change to current or new tenancy agreements
- ◆ Consortium : usually Housing Association, builder and finance house
  - Special Purpose Vehicle (SPV)
  - 25/30 year contract for management, repairs and refurbishment
- ◆ Extra funds to bridge investment gap to achieve decent homes standard (with some additional funds to address wider area improvement work)
- ◆ Significant set-up work but process will be easier in future following initial successful pathfinders
- ◆ Needs support of tenants but no specific requirement for a formal ballot

**AWICS** 

Independence

.....

Integrity.....

Value



# Stock Transfer

- Ownership of homes is switched to a Housing Association
- They can borrow money from building societies to buy the stock and finance improvements
  - Future rent money repays the borrowing
- New organisation must be a “Registered Social Landlord” : Housing Corporation
  - Change of tenancy
- The Boards of any new landlord must have tenants and councillors on them
- Must have a ballot of tenants in order for it to go ahead

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*



# Stock Transfer Implications

- ◆ **Rights** – A new landlord, a new Assured Tenancy - major rights preserved – RTB & RTM
- ◆ **Rents** – paid to the new landlord – rise in line with government's plans for rents
- ◆ **Repairs & Improvements** – what level of improvement can be afforded? ...or negotiated?
- ◆ **Services** – not affected by government subsidy and maybe could increase spending
- ◆ **New homes** – would/ should a new association build?
- ◆ **New approach** – new organisation, new board, new policies, new way of doing things

**AWICS** 

Independence

.....

Integrity.....

Value



# Deciding to Pursue Transfer

- ◆ Indicate how the transfer supports the decent homes standard and improved management
- ◆ Fully worked out investment appraisal in which tenants are involved from the outset
- ◆ Investment appraisal informed by housing needs assessment
- ◆ Best Value Review of landlord role
- ◆ Impact on the HRA needs to be assessed
- ◆ Public expenditure implications to be assessed
- ◆ Impact on corporate strategy, organisational structure and resource allocation to be assessed
- ◆ Change management plan to ensure involvement and commitment of staff
- ◆ Consider regeneration
- ◆ Authority should give careful consideration to transfer proposals put forward by tenants


**AWICS** 

Independence

.....

Integrity.....

Value



# Deciding on the Terms of Transfer

- ◆ Transfer should usually involve the sale of the freehold interest in the property
- ◆ A key part of the transfer proposal is the rent plan, which should deliver rent convergence by March 2012
- ◆ The price a Registered Social Landlord pays for the housing must have regard to the Tenanted Market Value
- ◆ An authority should consider at an early stage the warranties likely to be requested
- ◆ After transfer an authority retains its strategic and enabling role
- ◆ An authority and prospective new landlord should ensure that, after transfer, they would be able to fulfil their statutory obligations in respect of social housing and plan for partnership working

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*



# Large Scale Voluntary Transfer: Tenanted Market Value

Dwellings are valued at tenanted market value

- ◆ Thirty years' rent income, minus thirty years' expenditure
- ◆ Discounted to present day values (net present value)
- ◆ Negotiation to ensure that purchase can be funded and new landlord can meet commitments

**AWICS**  
*Independence*

.....

*Integrity.....*  
*Value*



# Summary

- ◆ It is about achieving sign off and about getting the right solution
- ◆ The need to engage with hundreds of people provides opportunities
  - What do people really want?
  - What kind of homes do they want to live in?
  - What kind of services do they want?
  - How do they want to participate in the running of services?
- ◆ The process needs to work for this council and its tenants...

**AWICS** 

Independence

.....

Integrity.....

Value

# Housing Stock Options Appraisals The End



Adrian Waite (Independent Consultancy Services) Limited,  
Appleby Business Centre,  
Bridge Street,  
Appleby in Westmorland,  
Cumbria. CA16 6QH.

Tel: 017683-52347 or 07971-321863.

Fax: 017683-52546.

E-mail: [adrian.waite@awics.co.uk](mailto:adrian.waite@awics.co.uk)

Website: [www.awics.co.uk](http://www.awics.co.uk)



**AWICS** 

Independence.....

Integrity.....Value